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Michelle Steel: Prop. 39 will fund corporate welfare

Raising business taxes won't help job creation in California.

By MICHELLE STEEL/ For the Register

Sold as a painless proposal to close a "corporate tax loophole" and "bring dollars and jobs back to California," Proposition 39 – which passed Nov. 6 with 60 percent support – will do nothing of the sort. The new law won't close a loophole; instead, it will create a new slush fund for "green" corporate welfare, hurt our economy and increase the cost of products and services across the state.

Supporters of Prop. 39 have claimed that a sneaky deal in 2009 created a loophole for corporate taxation, penalizing in-state corporations and benefitting those outside of California. That's not the case.

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Since 1993, California had a four-factor corporate tax formula that used payroll, property, and double-weighted sales in order to measure how much of a corporation's income was generated, and therefore taxable, in California. In 2009, the Legislature added another method by which corporations could choose to pay their taxes: the "single-sales factor," which considers only a corporation's sales in California relative to its national sales.

The elective single-sales factor was a benefit for all corporations doing business in California. It gave increased flexibility to both in-state and out-of-state corporations to choose the tax method most beneficial to them and, in turn, to their consumers. And it made California more competitive with other states.

Prop. 39 took that flexibility away from all corporate taxpayers.

Though raising taxes will punish some corporations, it won't create a new incentive to build or hire new employees in a state infamous for high regulations and oppressive taxes.

Higher corporate taxes do change behavior: They reduce incentives to invest or expand in places where you have to pay them – they also reduce employees' income. The nonpartisan Tax Foundation found in a 2009 study that, on average, each $1 increase in corporate tax collections leads to roughly a $2.50 loss in wages.

Moreover, the revenue raised won't lead to much-needed reforms of California's government that could create incentives for hiring and growth, but to new and expanding "green" energy boondoggles and increased funds for politicians to spend on failing programs and growing bureaucracies.

According to the law, half of new revenue raised the first five years – currently estimated at $2.5 billion, but likely to be lower – will be spent on energy efficiency in government buildings and schools, and "green" job-creation programs.

Yet California government already spends massively on "green" programs, including more than $100 billion in the past decade to "modernize" schools that did nothing to improve education. In the past two years alone, utility consumers have paid $3.1 billion in fees for "energy efficiency" projects, and California's new carbon cap-and-trade program is expected to raise billions for the same purpose.

The vague language allowing for some of the "green" funds to be spent on "job training" and "improving energy efficiency" have already sent interest groups and businesses scrambling for a stack of the taxpayer's green. If Solyndra wasn't bad enough, we're sure to see further tax-funded failures as the state spends more on corporate welfare for uncompetitive industries.

Instead of making California a better place to do business, our new corporate tax rules will punish consumers with higher prices and fewer jobs, while funneling more money to the anti-growth crusades of green utopians.

Michelle Steel is vice chairwoman of the state Board of Equalization.